

29 November 2023

KPJ Healthcare

In the Pink of Health

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KPJ's 9MFY23 beat expectations on stronger-than-expected business rebound as the pandemic ended. Its 9MFY23 net profit rose 71%, buoyed by the full economy reopening coupled with reduced losses from new hospitals. We raise our FY23-24F net profit forecasts by 4% each, lift our TP by 4% to RM1.56 (from RM1.50) and reiterate our OUTPERFORM call.

Its 9MFY23 core net profit of RM171m (+71%) beat expectations, coming in at 78% and 85% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from stronger-than-expected bed occupancy rates.

YoY, its 9MFY23 revenue rose 19%, thanks to higher patient throughput (+4%) and higher BOR of 67% (compared to 56% in 9MFY22) as demand for non-COVID related services rebounded including elective surgeries cases (+12%) following the transition to endemic phase. However, its net profit rose 71% thanks to better overhead absorption (on an improved turnover) as well as reduced losses from its new hospitals (which are EBITDA positive), i.e. KPJ Bandar Dato' Onn, KPJ Perlis and KPJ Miri.

QoQ, its 3QFY23 revenue rose 16% due to higher throughput from inpatient (+17%) and outpatient (+11%) as BOR rose to 73% from 63% in 2QFY23. We believe patients flocked back to seek treatment following the festive holidays in 2QFY23. Correspondingly, its 3QFY23 core net profit rose 53% to RM72m boosted by higher associates (+42%) and better overhead absorption (on an improved turnover). A 4th interim dividend and a special dividend of 1.05 sen and 0.25 sen was declared, respectively, bringing 9MFY23 to 3.35 sen which came in above our expectation.

Outlook. Looking ahead into FY23, we project KPJ's patient throughput to grow 14% (vs. 12% in FY22) and BOR of 70% (vs. 58% in FY22) as the demand for private healthcare services resumes its growth path post the pandemic.

Forecasts. We raise our FY23-24F net profit forecasts by 4% each, as we raise our assumption on BOR from 70% to 71%.

Correspondingly, we lift our TP by 4% to RM1.56 (previously RM1.50) based on 28x FY24F EPS, in line with its regional peers. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see next page).

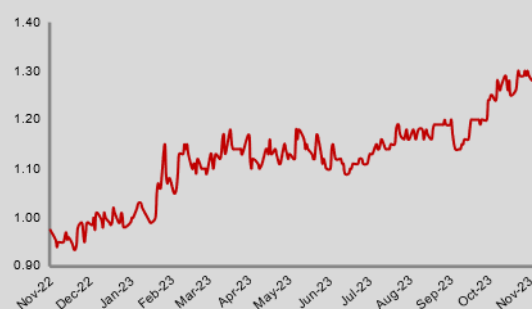
We continue to like KPJ for: (i) the low "price elasticity of demand" for healthcare service, which mean players are less vulnerable to high inflation as they could pass on the higher cost, (ii) being a reopening play, especially for elective surgeries, and (iii) its strong market position locally with the largest network of 29 private hospitals (vs. only 16 of IHH Healthcare's Malaysia operation in the second place). Reiterate **OUTPERFORM**.

Key risks to our call are: (i) regulatory risk, (ii) the lack of political will to roll out a national health insurance scheme, and (iii) longer-than-expected gestation periods for its newer hospitals.

OUTPERFORM ↔

Price: **RM1.30**
Target Price: **RM1.56** ↑

Share Price Performance



KLCI 1,448.02
YTD KLCI chg -3.2%
YTD stock price chg 28.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPJ MK Equity
Market Cap (RM m)	5,106.2
Shares Outstanding	4,364.3
52-week range (H)	1.21
52-week range (L)	0.79
3-mth avg daily vol:	7,257,264
Free Float	24%
Beta	0.9

Major Shareholders

Johor Corporation	45.0%
Employees Provident Fund	8.6%
Waqaf An-Nur Corporation	7.0%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	2,920.7	3,344.2	3,366.3
PBT	263.5	367.6	392.8
Net Profit (NP)	172.0	228.5	246.0
Core NP	172.0	228.5	246.0
Consensus (NP)	-	223	247
Earnings Revision	-	+4%	+4%
Core EPS (sen)	3.9	5.2	5.6
Core EPS growth (%)	212.5	32.5	7.6
NDPS (sen)	2.6	3.5	3.5
BVPS (RM)	0.50	0.52	0.54
PER (x)	33.6	25.3	23.5
Price/BVPS (x)	2.6	2.5	2.4
Net Gearing (%)	63.7	59.1	53.0
Dividend Yield (%)	2.0	2.7	2.7

Result Highlight

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FYE Dec (RM m)	FY23	FY23	Chg (%)	FY22	Chg (%)	FY22	FY23	Chg (%)
Turnover	925.4	799.5	15.7	798.7	15.9	2,139.7	2,553.9	19.4
EBITDA	254.8*	185.1	37.7	198.1	37.7	506.8	630.1*	28.6
Associates	13.8	9.8	41.5	13.8	0.4	33.7	33.9	0.7
PBT	133.1	68.5	94.3	88.5	50.5	173.0	279.3	61.4
Net profit	90.3	46.9	92.4	50.7	78.1	99.9	189.2	89.3
Core net profit	72.0	46.9	53.2	50.7	42.0	99.9	170.8	71.0
EPS (sen)	2.1	1.1	91.7	1.2	76.9	2.3	4.3	88.7
EBITDA margin	28%	23%		23%		24%	25%	
PBT margin	14%	9%		11%		8%	11%	
Effective tax rate	27%	29%		36%		34%	28%	

Source: Company, Kenanga Research, Bursa Malaysia
 *includes RM44m gain from disposal of Indonesia operations

Stock ESG Ratings:

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	☆
	Community Investment	★	★	★
	Workers Safety & Wellbeing	★	★	★
	Corporate Governance	★	★	★
	Anti-Corruption Policy	★	★	★
	Emissions Management	★	★	☆
SPECIFIC	Care Quality & Patient Safety	★	★	★
	Effluent / Waste Management	★	★	★
	Energy Efficiency	★	★	★
	Cybersecurity/Data Privacy	★	★	★
	Talent Management	★	★	★
	Supply Chain Management	★	★	★
OVERALL		★	★	★

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
IHH HEALTHCARE BHD	5.84	7.00	20%	51,433	5.84	Y	12/2023	17.9	20.7	14%	15%	32.6	28.3	1.9	5.9%	15.5	2.7%
KOTRA INDUSTRIES BHD	5.02	6.03	20%	745	5.02	Y	06/2024	40.2	43.0	-9%	7%	12.5	11.7	2.2	19.8%	26.0	5.2%
KPJ HEALTHCARE BHD	1.30	1.56	20%	5,885	1.30	Y	12/2023	5.1	5.5	33%	8%	25.3	23.5	2.5	10.1%	3.5	2.7%
NOVA WELLNESS GROUP BHD	0.630	0.840	33%	201	0.630	Y	06/2024	5.6	6.4	24%	13%	11.2	9.9	1.7	15.9%	3.5	5.6%
PHARMANIAGA	0.400	0.300	-25%	576	0.400	Y	12/2023	2.4	3.1	-94%	32%	16.9	12.8	(2.7)	-14.8%	0.0	0.0%

Source: Company, Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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